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SUBJECT: NEW INDO-SOVIET SHIPPING AGREEMENT

SUMMAR. A FIVE YEAR BILATERAL SHIPPING AGREEMENT BETWEEN INDIA AND THE SOVIET UNION, SIGNED HERE ON JULY 19 BY GOI SHIPPING AND TRANSPORT MINISTER DHILLON AND USSR MINISTER FOR MERCHANT MARINE GUZHENKO, IS BROADER IN SCOPE AND WIDER IN COVERAGE THAN THE PREVIOUS AGREEMENT.

END SUMMARY.

1. THE NEW FIVE YEAR SHIPPING ACCORD, REPLACING A 1956 AGREEMENT, HAS SEVERAL ADDITIONAL FEATURES. FROM THE INDIAN POINT OF VIEW, THE MOST IMPORTANT NEW PROVISION ALLOWS INDIAN AND RUSSIAN MERCHANT SHIPS TO CALL IN ALL COMMERCIAL PORTS IN BOTH COUNTRIES. (THE 1956 AGREEMENT LIMITED INDIAN SHIPS TO RUSSIAN BLACK SEA PORTS.) ALSO, THE NEW AGREEMENT PROVIDES FOR CARRIAGE OF BOTH DRY BULK AND LIQUID CARGO (IN CONTRAST TO THE PREVIOUS PROHIBITION OF INDIAN SHIPS CARRYING CERTAIN CARGO, SUCH AS MACHINERY, CRUDE OIL AND PETROLEUM PRODUCTS).

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2. OTHER MAJOR PROVISIONS OF THE NEW AGREEMENT ARE AS FOLLOWS. THE

PRINCIPLE OF PARITY IN CARGO SHIPMENTS AND FREIGHT EARNINGS IS MAINTAINED SO THAT SHIPMENTS FROM ALL PORTS IN BOTH COUNTRIES WILL BE TAKEN INTO CONSIDERATION IN THE CALCULATION OF PARITY AND FINANCIAL ADJUSTMENTS EACH ACCOUNTING YEAR. THE SHIPPING LINES OF EACH COUNTRY HAVE THE RIGHT OF FIRST REFUSAL REGARDING EXTRA TONNAGE THAT MAY BE REQUIRED AT ANY GIVEN TIME BY THE OTHER COUNTRY. THE TWO SIDES HAVE PLEDGED TO GRANT THE MOST FAVORED NATION TREATMENT TO EACH OTHER'S VESSELS. EACH COUNTRY HAS THE RIGHT TO UTILIZE ITS MERCHANT FLEET TO THE MAXIMUM IN ITS TRADE WITH THIRD COUNTRIES. (THIS INCLUDES THE NEWLY GRANTED RIGHT OF INDIAN SHIPS TO CARRY CARGO FROM SOVIET PORTS TO THIRD COUNTRIES). THE FREIGHT EARNINGS OF SHIPPING LINES OF BOTH COUNTRIES WILL ENJOY THE BENEFIT OF TAX EXEMPTION IN THE OTHER COUNTRY. THE TAX ON EARNINGS ON THIRD COUNTRY TRADE WILL BE PAID AT A CONCESSIONAL RATE OF 33.33 PERCENT.

3. THE SHIPPING CORPORATION OF INDIA, THE SCINDIA STEAM NAVIGATION COMPANY OF BOMBAY, INDIA STEAM SHIPS LTD. OF CALCUTTA AND THE BLACK SEA SHIPPING COMPANY (FOR THE SOVIETS) HAVE BEEN OPERATING JOINTLY THE INDO-SOVIET SHIPPING SERVICE AND ARE EXPECTED TO CONTINUE IN THIS CAPACITY. A JOINT INTER-GOVERNMENTAL COMMITTEE WILL IMPLEMENT THE FIVE YEAR AGREEMENT.

4. COMMENT: TALKS WITH DEPUTY TRADE REPRESENTATIVE OFFICER OF THE SOVIET EMBASSY AND SCINDIA COMPANY OFFICIAL HERE CONFIRMED THE REPORTED PROVISIONS OF THE AGREEMENT. ACCORDING TO NEWSPAPER REPORTS, DURING THE LAST TWO DECADES THE AMOUNT OF CARGO TRANSPORTED BETWEEN THE TWO COUNTRIES HAS AMOUNTED TO 12.5 MILLION MT, INDIAN LINES EARNED RS 927 MILLION ON THIS TRAFFIC AND SOVIET LINES, RS 937 MILLION. IN RECENT YEARS INDIA'S TRADE WITH THE USSR HAS ACCOUNTED FOR APPROXIMATELY TEN PERCENT OF INDIA'S TOTAL FOREIGN TRADE. BOTH COUNTRIES ARE HOPING THAT, AS A RESULT OF THE FIVE YEAR TRADE AGREEMENT SIGNED LAST APRIL, THE VOLUME OF INDO-SOVIET CARGO TRAFFIC WILL INCREASE SUBSTANTIALLY IN THE FUTURE.SAXBE

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